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SIPDIS

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NEA FOR FRONT OFFICE; NEA/IPA FOR  
WILLIAMS/SHAMPAIN/STEINGER; PRM FOR PDAS GREENE AND  
PRM/ANE; NSC FOR ABRAMS/DORAN/WATERS; TREASURY FOR  
SZUBIN/LOEFFLER/NUGENT/HIRSON; BRUSSELS FOR LERNER

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [KWBG](#) [KPAL](#)  
SUBJECT: PALESTINIAN SECURITIES EXCHANGE SEEKS STABILITY IN  
2007

CLASSIFIED BY: CONSUL GENERAL JAKE WALLS, REASONS 1.4 (B) AND (D)

¶1. (SBU) FOLLOWING A METEORIC RISE IN 2005, THE AL-QUDS  
INDEX OF THE PALESTINIAN SECURITIES EXCHANGE (PSE) DROPPED 46  
PERCENT IN 2006. PSE'S CHAIRMAN ASSERTS THAT THE NEGATIVE  
IMPACT OF HAMAS' ELECTION VICTORY HAS BEEN CONTAINED, IN PART  
DUE TO A MORE AGGRESSIVE ENFORCEMENT OF DISCLOSURE  
REQUIREMENTS. IN AN EFFORT TO ENHANCE TRANSPARENCY AND BUILD  
INVESTOR CONFIDENCE, THE PSE HAS INITIATED A RESTRUCTURING  
PROGRAM, STARTING WITH AN EXPANSION AND RE-WEIGHTING OF THE  
AL-QUDS INDEX. END SUMMARY.

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2006 MARKET CORRECTION  
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¶2. (SBU) HAVING RISEN 306 PERCENT IN 2005, PSE COMMENCED A  
SEVERE DOWNWARD SPIRAL AFTER HAMAS' VICTORY IN THE JANUARY  
2006 PLC ELECTIONS. STARTING OFF THE YEAR AT 1128.59, THE  
AL-QUDS INDEX -- A MARKET CAPITALIZATION-WEIGHTED INDEX --  
PLUMMETED 56 PERCENT BEFORE BOTTOMING OUT JULY 16 AT 494.65.  
THE MARKET SUBSEQUENTLY STABILIZED, CLOSING OUT THE YEAR AT  
605, A 46 PERCENT LOSS.

¶3. (C) PSE CHAIRMAN HASSAN ABU LIBDEH, IN A MEETING WITH  
ECONOFFS, ATTRIBUTED THE MARKET'S 2006 PLUNGE TO REGIONAL  
TRENDS (THE DUBAI AND SAUDI MARKETS FARED EVEN WORSE), AN  
OVERREACTION TO HAMAS POLITICAL GAINS, AND THE GENERAL  
IGNORANCE OF INVESTORS. HE ASSERTED THAT THE START OF THE  
PSES MORE RIGOROUS ENFORCEMENT OF QUARTERLY DISCLOSURE  
REQUIREMENTS FOR LISTED COMPANIES IN JULY 2006 HELPED  
STABILIZE THE MARKET. HE SAID THAT HE HAS TEMPORARILY  
SUSPENDED SEVERAL COMPANIES FOR FAILING TO FULFILL THEIR  
DISCLOSURE OBLIGATIONS.

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NEED FOR MONITORING OF TRADES  
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¶4. (C) ABU LIBDEH SAID HE WISHED TO ENHANCE THE PSE'S  
SURVEILLANCE AND MONITORING CAPABILITIES IN ORDER TO COUNTER  
MONEY LAUNDERING THROUGH THE STOCK EXCHANGE AND WOULD WELCOME  
USG ASSISTANCE. HE SUGGESTED, FOR EXAMPLE, THAT HAMAS COULD  
MOVE MONEY TO THE WEST BANK FROM GAZA BY HAVING ITS MEMBERS  
BUY STOCKS IN GAZA AND THEN SELL THE SHARES IN THE WEST BANK  
OR ELSEWHERE. HE ADDED THAT HE HAD NOT YET SEEN EVIDENCE OF  
THIS PRACTICE BUT HAD DENIED A TRADING LICENSE TO A GROUP  
FROM GAZA.

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2007 RESTRUCTURING  
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15. (C) ABU LIBDEH ADVISED THAT IN 2007 THE PSE WOULD FOCUS ON RESTRUCTURING AS A MEANS FOR ACHIEVING GREATER TRANSPARENCY. THE PSE HAS ALREADY ADDED TWO COMPANIES TO THE AL-QUDS INDEX, BRINGING THE TOTAL TO 12. THE PSE HAD ALSO ADJUSTED THE WEIGHT OF THE DIFFERENT SECTORS IN ORDER TO LESSEN THE INFLUENCE OF THE TWO LARGEST PALESTINIAN FIRMS, PADICO AND PALTEL, WHILE ALSO REFLECTING THE INCREASE IN THE NUMBER OF LISTED COMPANIES TO 33. HE SAID HE EXPECTED THAT 8-10 MORE COMPANIES WILL BE LISTED ON THE PSE BY YEAR'S END. (NOTE: ACCORDING TO THE CAPITAL MARKETS AUTHORITY LAW, ALL PUBLIC COMPANIES, ABOUT 90 IN TOTAL, ARE TO BE PUBLICLY TRADED ON THE EXCHANGE. END NOTE.)

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BUILDING CAPACITY/INVESTOR BASE  
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16. (C) RECOGNIZING THE DEARTH OF ACCURATE AND TIMELY INFORMATION ON LISTED COMPANIES AND THE MARKET AS A WHOLE, THE PSE BEGAN IMPLEMENTING AN INVESTOR EDUCATION PROGRAM IN 2006 AND HOPES TO CONTINUE WORKSHOPS AND PRODUCE A CD ON THE BASICS OF STOCK MARKET INVESTING. THE PSE IS ALSO ATTEMPTING TO BUILD SOME CAPACITY FOR INDEPENDENT MONITORING AND REPORTING ON THE MARKET. ABU LIBDEH SAID THE PSE IS ASSISTING ONE OF THE FEW LOCAL BROKERAGE FIRMS IN IMPROVING ITS REPORTS TO CLIENTS. ANOTHER FIRM HAS CONTRACTED WITH A JORDANIAN COMPANY TO DO THE SAME. ABU LIBDEH CITED THE NEED FOR REPORTS ON COMPANY VALUATIONS, SIMILAR TO MOODY'S. HE STATED THAT THE PSE HAD LAUNCHED A MARKETING CAMPAIGN IN THE GULF STATES TO ATTRACT FOREIGN INVESTORS. HE NOTED THAT PRIOR TO 2006 WELL OVER 50 PERCENT OF PSE INVESTORS WERE FROM

OUTSIDE THE WEST BANK AND GAZA, BUT THAT NUMBER HAS NOW SLIPPED TO 40 PERCENT.

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PUBLIC OFFERING  
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17. (C) THE PSE PLANS TO BECOME A PUBLIC SHAREHOLDING COMPANY BY OFFERING 30 PERCENT OF ITS SHARES (OR 3 MILLION SHARES) TO THE PUBLIC AS EARLY AS MAY 2007, ACCORDING TO ABU LIBDEH. CURRENT OWNERS SHARE WOULD FALL TO 30-35 PERCENT. HE SAID THE KUWAIT-BASED GLOBAL INVESTMENT FUND IS NEGOTIATING THE PURCHASE OF A 10 PERCENT STAKE IN THE PSE. WALLS